

CITY OF PRINCETON, IOWA

FINANCIAL STATEMENTS

June 30, 2011

TABLE OF CONTENTS

	PAGE
OFFICIALS.....	1
INDEPENDENT AUDITOR'S REPORT	2
MANAGEMENT'S DISCUSSION AND ANALYSIS	4
EXHIBIT	
BASIC FINANCIAL STATEMENTS	12
Government-Wide Financial Statements:	
Statement of Activities and Net Assets - Cash BasisA	13
Governmental Fund Financial Statement:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances.....B	15
Proprietary Funds Financial Statement:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances.....C.....	16
Notes to Financial Statements.....	17
REQUIRED SUPPLEMENTAL INFORMATION	29
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds	30
Notes to Required Supplemental Information - Budgetary Reporting	32

**TABLE OF CONTENTS
(CONTINUED)**

	PAGE
OTHER SUPPLEMENTAL INFORMATION	33
SCHEDULE	
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Governmental Funds	1.....34
Schedule of Indebtedness	2.....35
Bond and Note Maturities	3.....36
 INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	 38
 INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	 40
Schedule of Expenditures of Federal Awards	42
Schedule of Findings and Questioned Costs	43
Summary Schedule of Prior Federal Audit Findings.....	51
Corrective Action Plan for Federal Audit Findings	52

CITY OF PRINCETON

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Keith Youngers	Mayor	January 1, 2012
Kevin Kernan	Mayor Pro Tem	January 1, 2012
Brian Carter	Council Member	January 1, 2012
Ann Greiger	Council Member	January 1, 2012
Mark Lee	Council Member	January 1, 2014
Daryl Welke	Council Member	January 1, 2014
A.J. Grunder	City Clerk/Treasurer	Indefinite
Jeff Paul/Mikkie Schiltz	City Attorney	Indefinite

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Princeton, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City of Princeton, Iowa's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Princeton, Iowa's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Also, as permitted by the Code of Iowa, the accounting records of the City of Princeton, Iowa have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2010. In addition, the City of Princeton, Iowa adopted GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions during the year ended June 30, 2011. The statement changed the classifications of governmental fund balances and clarified the definitions of existing fund types. The adoption of this statement had no effect on the total amount of any of the City's governmental fund balances as of and for the year ended June 30, 2011.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2010, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Princeton, Iowa as of June 30, 2011, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2012 on our consideration of the City of Princeton, Iowa's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion of the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America required that the management's discussion and analysis and budgetary comparison information on pages 4 through 11 and 30 through 32 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Princeton, Iowa's basic financial statements as a whole. The Schedule of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Governmental Funds, Schedule of Indebtedness and Bond and Note Maturities, are presented for purposes of additional analysis and are not required parts of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The Schedule of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Governmental Funds, Schedule of Indebtedness, Bond and Note Maturities and Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2010, as discussed in the third paragraph, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Winkel, Parker & Foster, CPA PC

Clinton, Iowa
February 27, 2012

**CITY OF PRINCETON
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011**

The City of Princeton, Iowa provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2011. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is not required to be audited annually, much of the information is not easily comparable to prior years. Comparative data has been provided if available.

2011 FINANCIAL HIGHLIGHTS

- The cash basis net assets of the City's governmental activities increased by \$35,999, or approximately 44% during fiscal year 2011.
- The cash basis net assets of the City's business-type activities decreased by \$47,216, due primarily to disbursements exceeding receipts in the Water and Sewer Funds.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.
- The Government-wide Financial Statements consist of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.
- The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.
- Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.
- Required Supplemental Information further explains and supports the financial statements with a comparison of the City's budget for the year.
- Other Supplemental Information provides detailed information about the nonmajor governmental funds and the City's indebtedness. In addition, the Schedule of Expenditures of Federal Awards provides detail of various federal programs benefiting the City.

**CITY OF PRINCETON
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011**

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with accounting principles generally accepted in the United States of America. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the water and sanitary sewer system. These activities are financed primarily by user charges.

**CITY OF PRINCETON
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011**

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax, Local Option Sales Tax and Tax Increment Financing 3) the Debt Service Fund, and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains Enterprise Funds to provide separate information for the water and sewer funds, considered to be major funds of the City.

The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

CITY OF PRINCETON
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011

GOVERNMENT-WIDE FINANCIAL ANALYSIS

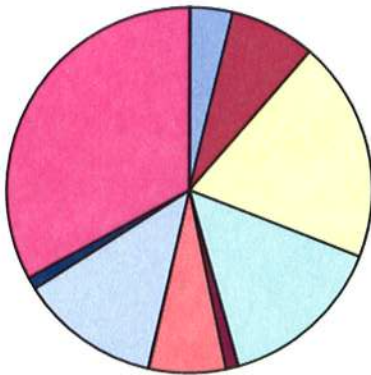
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$81,885 to \$117,884. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities

	<u>2011</u>
Receipts and transfers:	
Program receipts:	
Charges for service	\$ 69,859
Operating grants, contributions, and restricted interest	141,411
Capital grants, contributions, and restricted interest	365,364
General receipts:	
Property tax	273,527
Tax increment financing	20,446
Local option sales tax	125,869
Unrestricted interest on investments	1,330
Loan proceeds	230,161
Miscellaneous	20,173
Transfers	<u>614,187</u>
Total receipts and transfers	<u>1,862,327</u>
 Disbursements:	
Public safety	223,375
Public works	92,028
Culture and recreation	86,737
Community and economic development	17,168
General government	135,319
Debt service	320,563
Capital projects	<u>951,138</u>
Total disbursements	<u>1,826,328</u>
 Change in cash basis net assets	35,999
 Cash basis net assets, beginning of year	<u>81,885</u>
 Cash basis net assets, end of year	<u><u>\$ 117,884</u></u>

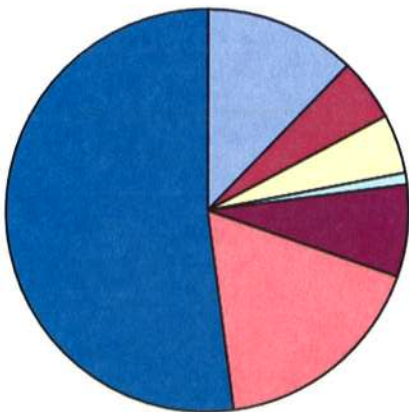
**CITY OF PRINCETON
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011**

Receipts by Source



- Charges for service
- Operating grants, contributions and restricted interest
- Capital grants, contributions and restricted interest
- Property tax
- Tax increment financing
- Local option sales tax
- Unrestricted interest on investments
- Bond, note and loan proceeds
- Miscellaneous
- Transfers

Disbursements by Function



- Public safety
- Public works
- Culture and recreation
- Community and economic development
- General government
- Debt service
- Capital projects

**CITY OF PRINCETON
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011**

Changes in Cash Basis Net Assets of Business Type Activities

	<u>2011</u>
Receipts and transfers:	
Program receipts:	
Charges for service	
Water	\$ 156,909
Sewer	105,932
General receipts:	
Unrestricted interest on investments	230
Bond proceeds	614,187
Transfers	<u>(614,187)</u>
Total receipts and transfers	<u>263,071</u>
 Disbursements:	
Water	176,921
Sewer	<u>133,366</u>
Total disbursements	<u>310,287</u>
 Change in cash basis net assets	(47,216)
 Cash basis net assets, beginning of year	<u>85,343</u>
 Cash basis net assets, end of year	<u>\$ 38,127</u>

Total business type activities receipts and transfers for the fiscal year were \$263,071. Total disbursements for the fiscal year totaled \$310,287.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Princeton completed the year, its governmental funds reported a combined fund balance of \$117,884, an increase of \$35,999 over last year's total of \$81,885. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$49,053 from the prior year to \$11,107. This decrease is attributed to the transfer of funds from the general fund to the debt service fund.
- The Local Option Sales Tax Fund cash balance increased from \$(9,774) to \$0 during the fiscal year. This is due to transferring out only what was available in order to eliminate the prior year's negative ending cash basis fund balance.

**CITY OF PRINCETON
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011**

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS (CONTINUED)

- The Capital Projects Fund cash balance increased \$73,929 from the prior year to \$79,210. This increase is attributed to the transfer of funds from the Local Option Sales Tax Fund to the Capital Projects Fund.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased by \$19,889 to \$30,112 due to lower revenues than anticipated.
- The Sewer Fund cash balance decreased by \$27,327 to \$8,015, due to disbursements exceeding receipts in the current year.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget two times. The budget was amended on September 9, 2010 and resulted in an increase in receipts and disbursements. Budgeted receipts increased due to the receipt of stimulus funds and an increase in garbage fees. Budgeted disbursements increased due to an increase in healthcare costs and capital project related expenses. The second amendment was approved on April 14, 2011 and resulted in an increase in receipts and disbursements. Budgeted receipts increased due to the re-estimation of capital improvement loan receipts. Budgeted disbursements increased due to an increase in capital project related expenses.

The City's receipts and other financing sources were \$7,828 more than budgeted. Even with the budget amendments, total disbursements were \$138,496 more than the amended budget. However, actual disbursements for the public works, culture and recreation, community and economic development, capital projects and business-type activities functions were less than the amended budget.

The City exceeded the amounts budgeted in the public safety, general government, debt service and business-type activity functions for the year ended June 30, 2011. This was primarily due to the City amending the budget for less than actual expenses.

**CITY OF PRINCETON
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011**

DEBT ADMINISTRATION

At June 30, 2011, the City had \$2,739,616 in general obligation bonds, notes and other long-term debt outstanding, compared to \$2,276,771 last year, as shown below.

Outstanding Debt at Year End

	Totals	
	<u>2011</u>	<u>2010</u>
Governmental		
General obligation bonds	\$ 805,000	\$ 860,000
Revenue bonds	1,858,184	1,318,181
Fire truck loans	<u>76,432</u>	<u>98,590</u>
Total	<u>\$ 2,739,616</u>	<u>\$ 2,276,771</u>

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$805,000 is considerably lower than its constitutional debt limit of \$2.7 million. For more detailed information on the City's debt and amortization terms refer to Schedules 2 and 3 and Note 3 which is on pages 21 - 24.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Princeton's elected and appointed officials considered many factors when setting the fiscal year 2012 budget, tax rates and fees charged for various City activities. The City's fiscal year 2012 assessed taxable valuation increased approximately 9%, or \$11,274, over the fiscal year 2011 level.

The fiscal year 2012 budget includes total receipts of \$925,626 and disbursements of \$945,443. The City Council agreed to not raise taxes and to use reserve funds to cover the difference.

The FY12 levy is \$8.04206 per taxable valuation, which is the same as in FY11.

These parameters were taken into account when adopting the budget for the 2012 fiscal year.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact AJ Grunder, City Clerk, PO Box 307, Princeton, Iowa 52768.

BASIC FINANCIAL STATEMENTS

CITY OF PRINCETON
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
As of and for the Year Ended June 30, 2011

FUNCTIONS/PROGRAMS	<u>Disbursements</u>	<u>Charges for Service and Sales</u>	<u>Program Receipts</u>	
			<u>Operating Grants, Contributions, and Restricted Interest</u>	<u>Capital Grants, Contributions, and Restricted Interest</u>
Governmental activities:				
Public safety	\$ 223,375	\$ -	\$ 47,881	\$ -
Public works	92,028	-	89,524	-
Culture and recreation	86,737	5,263	4,006	-
Community and economic development	17,168	-	-	-
General government	135,319	64,596	-	-
Debt service	320,563	-	-	-
Capital projects	951,138	-	-	365,364
Total governmental activities	<u>1,826,328</u>	<u>69,859</u>	<u>141,411</u>	<u>365,364</u>
Business-type activities:				
Water	176,921	156,909	-	-
Sewer	133,366	105,932	-	-
Total business-type activities	<u>310,287</u>	<u>262,841</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 2,136,615</u>	<u>\$ 332,700</u>	<u>\$ 141,411</u>	<u>\$ 365,364</u>
General receipts:				
Property tax levied for:				
General purposes				
Debt service				
Tax increment financing				
Local option sales tax				
Unrestricted investment earnings				
Bond proceeds				
Loan proceeds				
Miscellaneous				
Transfers				
Total general receipts and transfers				
CHANGE IN CASH BASIS NET ASSETS				
CASH BASIS NET ASSETS BEGINNING OF YEAR				
CASH BASIS NET ASSETS END OF YEAR				
CASH BASIS NET ASSETS				
Restricted:				
Expendable:				
Urban renewal purposes				
Streets				
Debt service				
Capital improvements				
Unrestricted				
Total cash basis net assets				

EXHIBIT A

**Net (Disbursements) Receipts and
Changes in Cash Basis Net Assets**

<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$ (175,494)	\$ -	\$ (175,494)
(2,504)	-	(2,504)
(77,468)	-	(77,468)
(17,168)	-	(17,168)
(70,723)	-	(70,723)
(320,563)	-	(320,563)
(585,774)	-	(585,774)
<u>(1,249,694)</u>	<u>-</u>	<u>(1,249,694)</u>
-	(20,012)	(20,012)
-	(27,434)	(27,434)
-	<u>(47,446)</u>	<u>(47,446)</u>
<u>(1,249,694)</u>	<u>(47,446)</u>	<u>(1,297,140)</u>
231,472	-	231,472
42,055	-	42,055
20,446	-	20,446
125,869	-	125,869
1,330	230	1,560
-	614,187	614,187
230,161	-	230,161
20,173	-	20,173
614,187	<u>(614,187)</u>	<u>-</u>
<u>1,285,693</u>	<u>230</u>	<u>1,285,923</u>
35,999	(47,216)	(11,217)
<u>81,885</u>	<u>85,343</u>	<u>167,228</u>
<u>\$ 117,884</u>	<u>\$ 38,127</u>	<u>\$ 156,011</u>
\$ 3,278	\$ -	\$ 3,278
24,077	-	24,077
212	38,127	38,339
79,210	-	79,210
11,107	-	11,107
<u>\$ 117,884</u>	<u>\$ 38,127</u>	<u>\$ 156,011</u>

CITY OF PRINCETON
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
As of and for the Year Ended June 30, 2011

	<u>General</u>	<u>Local Option Sales Tax</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
RECEIPTS					
Property taxes	\$ 226,969	\$ -	\$ -	\$ 42,055	\$ 269,024
Tax increment financing collections	-	-	-	20,446	20,446
Other city taxes	4,503	125,869	-	-	130,372
Licenses and permits	2,490	-	-	-	2,490
Use of money and property	6,592	-	-	-	6,592
Intergovernmental	47,881	-	365,364	89,524	502,769
Charges for services	56,423	-	-	-	56,423
Miscellaneous	29,863	-	-	-	29,863
Total receipts	<u>374,721</u>	<u>125,869</u>	<u>365,364</u>	<u>152,025</u>	<u>1,017,979</u>
DISBURSEMENTS					
Governmental activities:					
Public safety	223,375	-	-	-	223,375
Public works	-	-	-	92,028	92,028
Culture and recreation	86,737	-	-	-	86,737
Community and economic development	-	-	-	17,168	17,168
General government	135,319	-	-	-	135,319
Debt service	-	-	231,083	89,480	320,563
Capital projects	-	-	951,138	-	951,138
Total disbursements	<u>445,431</u>	<u>-</u>	<u>1,182,221</u>	<u>198,676</u>	<u>1,826,328</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>(70,710)</u>	<u>125,869</u>	<u>(816,857)</u>	<u>(46,651)</u>	<u>(808,349)</u>
OTHER FINANCING SOURCES (USES)					
Loan proceeds	-	-	230,161	-	230,161
Operating transfers in	120,421	-	660,625	48,000	829,046
Operating transfers out	(98,764)	(116,095)	-	-	(214,859)
Total other financing sources (uses)	<u>21,657</u>	<u>(116,095)</u>	<u>890,786</u>	<u>48,000</u>	<u>844,348</u>
NET CHANGE IN CASH BALANCES	<u>(49,053)</u>	<u>9,774</u>	<u>73,929</u>	<u>1,349</u>	<u>35,999</u>
CASH BALANCES BEGINNING OF YEAR	<u>60,160</u>	<u>(9,774)</u>	<u>5,281</u>	<u>26,218</u>	<u>81,885</u>
CASH BALANCES END OF YEAR	<u>\$ 11,107</u>	<u>\$ -</u>	<u>\$ 79,210</u>	<u>\$ 27,567</u>	<u>\$ 117,884</u>
CASH BASIS FUND BALANCES					
Restricted for:					
Urban renewal purposes	\$ -	\$ -	\$ -	\$ 3,278	\$ 3,278
Streets	-	-	-	24,077	24,077
Debt service	-	-	-	212	212
Capital improvements	-	-	79,210	-	79,210
Unassigned	<u>11,107</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,107</u>
Total cash basis fund balances	<u>\$ 11,107</u>	<u>\$ -</u>	<u>\$ 79,210</u>	<u>\$ 27,567</u>	<u>\$ 117,884</u>

CITY OF PRINCETON
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS
As of and for the Year Ended June 30, 2011

	Water Fund	Sewer Fund	Total
OPERATING RECEIPTS			
Charges for services	\$ 156,209	\$ 105,932	\$ 262,141
Miscellaneous	700	-	700
Total operating receipts	<u>156,909</u>	<u>105,932</u>	<u>262,841</u>
OPERATING DISBURSEMENTS			
Business-type activities:	107,241	77,554	184,795
Total operating disbursements	<u>107,241</u>	<u>77,554</u>	<u>184,795</u>
EXCESS OF OPERATING RECEIPTS OVER OPERATING DISBURSEMENTS	<u>49,668</u>	<u>28,378</u>	<u>78,046</u>
NON-OPERATING RECEIPTS (DISBURSEMENTS)			
Interest on investments	123	107	230
Bond proceeds	-	614,187	614,187
Debt service	(69,680)	(55,812)	(125,492)
Net non-operating receipts (disbursements)	<u>(69,557)</u>	<u>558,482</u>	<u>488,925</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>(19,889)</u>	<u>586,860</u>	<u>566,971</u>
Operating transfers out	<u>-</u>	<u>(614,187)</u>	<u>(614,187)</u>
NET CHANGE IN CASH BALANCES	(19,889)	(27,327)	(47,216)
CASH BALANCES BEGINNING OF YEAR	<u>50,001</u>	<u>35,342</u>	<u>85,343</u>
CASH BALANCES END OF YEAR	<u>\$ 30,112</u>	<u>\$ 8,015</u>	<u>\$ 38,127</u>
CASH BASIS FUND BALANCES			
Restricted:			
Debt service	<u>\$ 30,112</u>	<u>\$ 8,015</u>	<u>\$ 38,127</u>
Total cash basis fund balances	<u>\$ 30,112</u>	<u>\$ 8,015</u>	<u>\$ 38,127</u>

**CITY OF PRINCETON
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Princeton is a political subdivision of the State of Iowa located in Scott County. It was first incorporated in 1857 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Princeton has included all funds, organizations, agencies, boards, commissions, and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Scott County Assessor's Conference Board, City Assessor's Conference Board, Scott County Emergency Management Commission, Scott County Landfill Commission and Scott County Joint E911 Service Board.

B. Basis of Presentation

Government-wide Financial Statement - The Statement of Activities and Net Assets report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by property tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

CITY OF PRINCETON
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in the following categories/components:

Nonexpendable restricted net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City.

Expendable restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions, and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges, and the capital improvement costs that are not paid from other funds.

The Local Option Sales Tax Fund is used to account for local option sales tax collections received from the State of Iowa.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

**CITY OF PRINCETON
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications - committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

**CITY OF PRINCETON
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable - Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned - Amounts the Council intends to use for specific purposes.

Unassigned - All amounts not included in other spendable classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplemental Information. During the year ended June 30, 2011, disbursements exceeded the amounts budgeted in the public safety, general government, debt service and business-type activity functions.

F. Subsequent Events

Management has evaluated subsequent events through February 27, 2012, the date the financial statements were available to be issued.

NOTE 2 - CASH AND INVESTMENTS

The City's deposits in banks at June 30, 2011 were entirely covered by federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district. The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No 40, at June 30, 2011.

CITY OF PRINCETON
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 3 - BONDS, LOANS AND NOTES PAYABLE

Annual debt service requirements to maturity for general obligation bonds, loans, and revenue bonds are as follows:

Year Ending June 30,	General Obligation Bonds		Loans	
	Principal	Interest	Principal	Interest
2012	\$ 55,000	\$ 32,380	\$ 5,640	\$ 2,387
2013	55,000	30,620	14,141	2,556
2014	60,000	28,778	14,570	2,126
2015	60,000	26,678	6,344	1,683
2016	60,000	24,488	6,598	1,429
2017 - 2021	350,000	83,668	29,139	2,973
2022 - 2026	165,000	11,420	-	-
Total	\$ 805,000	\$ 238,032	\$ 76,432	\$ 13,154

Year Ending June 30,	Revenue Bonds	
	Principal	Interest
2012	\$ 79,000	\$ 55,757
2013	80,000	53,400
2014	83,000	51,000
2015	86,000	48,510
2016	88,000	45,930
2017 - 2021	488,000	188,100
2022 - 2026	574,000	109,890
2027 - 2030	380,184	24,570
Total	\$ 1,858,184	\$ 577,157

Fire Truck Loan

On July 1, 2008, the City entered into a loan agreement for \$40,448 with a local bank to purchase a fire truck. Principal is to be paid in five equal annual installments, including interest at 2.35% per annum, beginning July 1, 2009. The outstanding principal balance of the loan at June 30, 2011 was \$16,745.

Rescue Unit Loan

On October 22, 2009, the City entered into a loan agreement for \$65,860 with a local bank to purchase a rescue unit. Principal is to be paid in ten equal annual installments, including interest at 4.00% per annum, beginning July 5, 2010. The outstanding principal balance of the loan at June 30, 2011 was \$59,687.

CITY OF PRINCETON
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 3 - BONDS, LOANS AND NOTES PAYABLE (CONTINUED)

Water Revenue Bonds

On March 12, 2008, the City entered into a State Revolving Fund loan and disbursement agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo Bank Iowa, N.A., Trustee for the issuance of \$1,245,000 of water revenue bonds with interest at 3.0% per annum. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance. The bonds were issued pursuant to the provisions of Chapter 384.24A of the Code of Iowa to pay the cost of construction of a new City water tower. The funds were drawn down by the City from the Trustee upon request to reimburse the City for costs as they were incurred. At June 30, 2011, the City had drawn down \$1,028,000 of the \$1,245,000 amount authorized. The City's final loaned amount was \$1,028,000. An initiation fee of 1% of the authorized borrowing for the water revenue bonds was charged by Wells Fargo Bank Iowa, N.A. The total initiation fee of \$12,450 was withheld by the bank from the first proceeds of the water revenue bonds drawn by the City during the year ended June 30, 2011. Semi-annual loan payments are required with interest only payments being due on June 1 and December 1 of each year. The first repayment of principal of the loan shall be due and payable not later than one year after completion of the project. Thereafter, principal payments will be due on June 1 each year. The final interest and principal payment is due on June 1, 2028. The loan is payable solely from the water customer net receipts and the City has pledged future water customer receipts, net of specified operating disbursements, to repay the bonds. For the current year, principal and interest expense paid was \$67,320 and loan servicing fees paid were \$2,360 and total customer net receipts were \$49,668. Total principal and interest remaining to be paid on the bonds are \$1,170,290.

The resolutions providing for the issuance of the revenue notes include the following provisions:

- a) To comply with all applicable State of Iowa and Federal laws, rules and regulations.
- b) To maintain its water system in good repair, working order and operating condition.
- c) User rates shall be established at a level which produces and maintains net revenues at a level not less than 110% of the amount of principal and interest on the bonds falling due in the same year.
- d) To maintain adequate insurance coverage.
- e) To maintain and not sell, lease or dispose of the water system or any capital part of the system until the revenue bonds are paid in full or discharged.

CITY OF PRINCETON
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 3 - BONDS, LOANS AND NOTES PAYABLE (CONTINUED)

Sewer Revenue Bonds

On December 9, 2009, the City entered into a State Revolving Fund loan and disbursement agreement with the Iowa Finance Authority for the issuance of \$997,000 of sewer revenue bonds with interest at 3.0% per annum. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance. The bonds were issued pursuant to the provisions of Chapter 384.24A of the Code of Iowa to pay the cost of construction of certain wastewater treatment facilities. The funds were drawn down by the City from the Trustee upon request to reimburse the City for costs as they were incurred. At June 30, 2011, the City had drawn down \$743,000 of the \$997,000 amount authorized. The City's final loaned amount was \$743,000. An initiation fee of 1% of the authorized borrowing for the water revenue bonds was charged by Wells Fargo Bank Iowa, N.A. The total initiation fee of \$9,970 was withheld by the bank from the first proceeds of the sewer revenue bonds drawn by the City during the year ended June 30, 2011. Semi-annual loan payments are required with interest only payments being due on June 1 and December 1 of each year. The first repayment of principal of the loan shall be due and payable not later than one year after completion of the project. Thereafter, principal payments will be due on June 1 each year. The final interest and principal payment is due on June 1, 2030. The loan is payable solely from the sewer customer net receipts and the City has pledged future sewer customer receipts, net of specified operating disbursements, to repay the bonds. For the current year, principal and interest expense paid was \$53,319 and loan servicing fees paid were \$2,493. Total principal and interest remaining to be paid on the bonds are \$938,761.

The resolutions providing for the issuance of the revenue notes include the following provisions:

- a) To comply with all applicable State of Iowa and Federal laws, rules and regulations.
- b) To maintain its sewer system in good repair, working order and operating condition.
- c) User rates shall be established at a level which produces and maintains net revenues at a level not less than 110% of the amount of principal and interest on the bonds falling due in the same year.
- d) To maintain adequate insurance coverage.
- e) To maintain and not sell, lease or dispose of the sewer system or any capital part of the system until the revenue bonds are paid in full or discharged.

CITY OF PRINCETON
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 3 - BONDS, LOANS AND NOTES PAYABLE (CONTINUED)

On October 8, 2009, the City entered into a State Revolving Fund loan and disbursement agreement with the Iowa Finance Authority for the issuance of \$247,000 of sewer revenue bonds with interest at 3.0% per annum. The bonds were issued pursuant to the provisions of Chapter 384.24A of the Code of Iowa to pay the cost of construction of certain wastewater treatment facilities. The funds were drawn down by the City from the Trustee upon request to reimburse the City for costs as they were incurred. At June 30, 2011, the City had drawn down \$247,000 of the \$247,000 amount authorized. Semi-annual interest payments are required due on June 1 and December 1 of each year. Annual principal payments are required due on June 1 of each year. The final interest and principal payment is due on June 1, 2030. The loan is payable solely from the sewer customer net receipts and the City has pledged future sewer customer receipts, net of specified operating disbursements, to repay the bonds. For the current year, principal and interest expense paid was \$0. Total principal and interest remaining to be paid on the bonds are \$326,290.

The resolutions providing for the issuance of the revenue notes include the following provisions:

- a) To comply with all applicable State of Iowa and Federal laws, rules and regulations.
- b) To maintain its sewer system in good repair, working order and operating condition.
- c) User rates shall be established at a level which produces and maintains net revenues at a level not less than 110% of the amount of principal and interest on the bonds falling due in the same year.
- d) Gross revenues of the utility shall be set aside in to the City's Sewer Revenue Fund.
- e) Sufficient monthly transfers shall be made to a separate Sinking Fund within the Enterprise Funds for the purpose of making the note principal and interest payments when due.
- f) All net revenues remaining after making the required payments in to the Sinking Fund shall be transferred to the Surplus Fund. These funds may be expended by the City in such manner as the Council may from time to time direct.
- g) To maintain adequate insurance coverage.
- h) To maintain and not sell, lease or dispose of the sewer system or any capital part of the system until the revenue bonds are paid in full or discharged.

Customer net receipts were \$28,378.

CITY OF PRINCETON
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 4 - PENSION AND RETIREMENT BENEFITS

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplemental information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 4.50% of their annual covered salary and the City is required to contribute 6.95% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2011, \$14,036, equal to the required contributions for each year.

NOTE 5 - OTHER POSTEMPLOYMENT BENEFITS

Plan Description - The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for all employees and retirees. There are 4 active members and no retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Coventry Healthcare. The monthly premium with Coventry Healthcare is the same for active employees and retirees based on plan type.

Active employees pay none of the monthly premium. Retirees are required to pay 100% of the monthly premium.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$355 for single coverage, \$792 for employee/spouse coverage, \$721 for employee/child(ren) coverage and \$1,133 for employee/spouse/child(ren) coverage. There are no retirees participating in the plan. For the year ended June 30, 2011, the City contributed \$20,704 and plan members eligible for benefits contributed \$0 to the plan.

**CITY OF PRINCETON
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

NOTE 6 - COMPENSATED ABSENCES

City employees accumulate earned but unused vacation hours and personal days for subsequent use or for payment upon termination, retirement, or death. These accumulations are not recognized as expenditures by the City until used or paid. The City's approximate maximum liability for earned vacation and sick leave payable to employees at June 30, 2011, primarily relating to the General Fund, was \$5,557. This liability has been computed based on rates of pay as of June 30, 2011.

NOTE 7 - INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2011 is as follows:

	Transfers In	Transfers Out
General	\$ 120,421	\$ 98,764
Capital Projects	660,625	-
Special Revenue:		
Local Option Sales Tax	-	116,095
Debt Service	48,000	-
Sewer Fund	-	614,187
	<u>\$ 829,046</u>	<u>\$ 829,046</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

NOTE 8 - COMMITTED CONSTRUCTION

As of June 30, 2011, the City had the following committed construction:

	Total Contract Amount	Portion at June 30, 2011	
		Completed	Committed
<u>Project</u>			
Lost Grove Road HMA Resurfacing	\$ 262,315	\$ 242,282	\$ 20,033

CITY OF PRINCETON
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 9 - RISK MANAGEMENT

The City is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 645 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 150 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2011 were \$20,531.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim. For members requiring specific coverage from \$3,000,000 to \$12,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location, with excess coverage reinsured by The Travelers Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2011, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

CITY OF PRINCETON
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 9 - RISK MANAGEMENT (CONTINUED)

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its casualty capital contributions. However, the refund is reduced by an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

NOTE 10 - DEVELOPMENT AND REBATE AGREEMENTS

The City has entered into a development agreement authorizing the payment of economic development tax rebate payments, pursuant to Chapters 15A and 403 of the Code of Iowa. During the year ended June 30, 2011, the City rebated \$17,167.

This information is an integral part of the accompanying financial statements.

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF PRINCETON
BUDGETARY COMPARISON SCHEDULE OF
RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCES -
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS
Year Ended June 30, 2011

	Governmental Fund Types <u>Actual</u>	Proprietary Fund Type <u>Actual</u>	<u>Total</u>
RECEIPTS			
Property taxes	\$ 269,024	\$ -	\$ 269,024
Tax increment financing collections	20,446	-	20,446
Other city taxes	130,372	-	130,372
Licenses and permits	2,490	-	2,490
Use of money and property	6,592	230	6,822
Intergovernmental	502,769	-	502,769
Charges for services	56,423	262,141	318,564
Miscellaneous	29,863	700	30,563
Total receipts	<u>1,017,979</u>	<u>263,071</u>	<u>1,281,050</u>
DISBURSEMENTS			
Public safety	223,375	-	223,375
Public works	92,028	-	92,028
Culture and recreation	86,737	-	86,737
Community and economic development	17,168	-	17,168
General government	135,319	-	135,319
Debt service	320,563	-	320,563
Capital projects	951,138	-	951,138
Business-type activities	-	310,287	310,287
Total disbursements	<u>1,826,328</u>	<u>310,287</u>	<u>2,136,615</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	(808,349)	(47,216)	(855,565)
OTHER FINANCING SOURCES (USES), (NET)	<u>844,348</u>	<u>-</u>	<u>844,348</u>
EXCESS (DEFICIENCY) OF RECEIPTS AND OTHER FINANCING SOURCES OVER (UNDER) DISBURSEMENTS AND OTHER FINANCING USES	35,999	(47,216)	(11,217)
BALANCES BEGINNING OF YEAR	<u>81,885</u>	<u>85,343</u>	<u>167,228</u>
BALANCES END OF YEAR	<u>\$ 117,884</u>	<u>\$ 38,127</u>	<u>\$ 156,011</u>

Budgeted Amounts		Final to Actual Variance - Positive (Negative)
<u>Original</u>	<u>Final</u>	
\$ 258,552	\$ 258,552	\$ 10,472
19,680	19,680	766
124,093	124,093	6,279
1,565	1,565	925
8,350	8,350	(1,528)
176,941	392,743	110,026
597,240	1,044,059	(725,495)
11,400	268,528	(237,965)
<u>1,197,821</u>	<u>2,117,570</u>	<u>(836,520)</u>
180,786	190,118	(33,257)
102,635	104,000	11,972
75,090	88,687	1,950
19,680	19,680	2,512
73,821	74,629	(60,690)
84,430	84,430	(236,133)
317,483	1,186,565	235,427
<u>246,728</u>	<u>250,010</u>	<u>(60,277)</u>
<u>1,100,653</u>	<u>1,998,119</u>	<u>(138,496)</u>
97,168	119,451	(975,016)
<u>-</u>	<u>-</u>	<u>844,348</u>
97,168	119,451	(130,668)
<u>296,918</u>	<u>205,289</u>	<u>(38,061)</u>
<u>\$ 394,086</u>	<u>\$ 324,740</u>	<u>\$ (168,729)</u>

CITY OF PRINCETON
NOTES TO REQUIRED SUPPLEMENTAL INFORMATION -
BUDGETARY REPORTING
June 30, 2011

The budgetary comparison is presented as Required Supplemental Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparison for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds, except Internal Service Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund or fund type. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business-type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Fund and Enterprise Funds. Although the budget document presents functional disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, two budget amendments increased budgeted receipts by \$919,749 and budgeted disbursements by \$897,466. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2011, disbursements exceeded the amounts budgeted in the public safety, general government, debt service and business-type activity functions.

OTHER SUPPLEMENTAL INFORMATION

CITY OF PRINCETON
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS
As of and for the Year Ended June 30, 2011

	<u>Special Revenue</u>			
	<u>Road Use Tax</u>	<u>Tax Increment Financing</u>	<u>Debt Service</u>	<u>Total</u>
RECEIPTS				
Property taxes	\$ -	\$ -	\$ 42,055	\$ 42,055
Tax increment financing collections	-	20,446	-	20,446
Intergovernmental	89,524	-	-	89,524
Total receipts	<u>89,524</u>	<u>20,446</u>	<u>42,055</u>	<u>152,025</u>
DISBURSEMENTS				
Governmental activities:				
Public works	92,028	-	-	92,028
Community and economic development	-	17,168	-	17,168
Debt service	-	-	89,480	89,480
Total disbursements	<u>92,028</u>	<u>17,168</u>	<u>89,480</u>	<u>198,676</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>(2,504)</u>	<u>3,278</u>	<u>(47,425)</u>	<u>(46,651)</u>
Operating transfers in	-	-	48,000	48,000
NET CHANGE IN CASH BALANCES	<u>(2,504)</u>	<u>3,278</u>	<u>575</u>	<u>1,349</u>
CASH BALANCES BEGINNING OF YEAR	<u>26,581</u>	<u>-</u>	<u>(363)</u>	<u>26,218</u>
CASH BALANCES END OF YEAR	<u>\$ 24,077</u>	<u>\$ 3,278</u>	<u>\$ 212</u>	<u>\$ 27,567</u>
CASH BASIS FUND BALANCES				
Restricted for:				
Urban renewal purposes	\$ -	\$ 3,278	\$ -	\$ 3,278
Streets	24,077	-	-	24,077
Debt service	-	-	212	212
Total cash basis fund balances	<u>\$ 24,077</u>	<u>\$ 3,278</u>	<u>\$ 212</u>	<u>\$ 27,567</u>

CITY OF PRINCETON
SCHEDULE OF INDEBTEDNESS
Year Ended June 30, 2011

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>	<u>Balance, Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance, End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
General obligation bonds									
Street improvement bonds	March 1, 2008	2.750% -	\$ 950,000	\$ 860,000	\$ -	\$ 55,000	\$ 805,000	\$ 34,030	\$ -
Street improvement bonds	July 20, 2010	4.600% -	250,000	-	230,161	230,161	-	922	-
Total		4.000% -	\$ 1,200,000	\$ 860,000	\$ 230,161	\$ 285,161	\$ 805,000	\$ 34,952	\$ -
Revenue bonds									
SRF water revenue	March 12, 2008	3.000%	\$ 1,245,000	\$ 944,000	\$ -	\$ 39,000	\$ 905,000	\$ 28,320	\$ -
SRF water revenue	December 9, 2009	3.000%	997,000	374,181	368,003	36,000	706,184	17,319	-
SRF water revenue	October 8, 2009	3.000%	247,000	-	247,000	-	247,000	-	-
Total			\$ 2,489,000	\$ 1,318,181	\$ 615,003	\$ 75,000	\$ 1,858,184	\$ 45,639	\$ -
Loans									
Fire truck loan	July 1, 2008	2.350%	\$ 40,448	\$ 32,730	\$ -	\$ 15,985	\$ 16,745	\$ 1,353	\$ -
Rescue unit loan	October 22, 2009	4.000%	65,860	65,860	-	6,173	59,687	1,855	-
Total			\$ 106,308	\$ 98,590	\$ -	\$ 22,158	\$ 76,432	\$ 3,208	\$ -

CITY OF PRINCETON
BOND AND NOTE MATURITIES
June 30, 2011

Year Ending June 30,	General Obligation Bonds				Loans					
	Street Improvement Bonds				Fire Truck Loan		Rescue Unit Loan			
	Issued March 1, 2008				Issued July 1, 2008		Issued October 22, 2009			
	Interest Rate	Principal	Interest		Interest Rate	Principal	Interest Rate	Principal	Interest	Total Loans Principal Interest
2012	3.20%	\$ 55,000	\$ 32,380		2.35%	\$ -	4.00%	\$ 5,640	\$ 2,387	\$ 5,640 \$ 2,387
2013	3.35%	55,000	30,620		2.35%	8,275	4.00%	5,866	2,162	14,141 2,556
2014	3.50%	60,000	28,778		2.35%	8,470	4.00%	6,100	1,927	14,570 2,126
2015	3.65%	60,000	26,678			-	4.00%	6,344	1,683	6,344 1,683
2016	3.80%	60,000	24,488			-	4.00%	6,598	1,429	6,598 1,429
2017	3.95%	65,000	22,208			-	4.00%	6,862	1,166	6,862 1,166
2018	4.10%	65,000	19,640			-	4.00%	7,137	891	7,137 891
2019	4.20%	70,000	16,975			-	4.00%	7,422	606	7,422 606
2020	4.30%	75,000	14,035			-	4.00%	7,718	310	7,718 310
2021	4.40%	75,000	10,810			-		-	-	- -
2022	4.50%	80,000	7,510			-		-	-	- -
2023	4.60%	85,000	3,910			-		-	-	- -
TOTAL		\$ 805,000	\$ 238,032			\$ 16,745		\$ 59,687	\$ 12,561	\$ 76,432 \$ 13,154

**CITY OF PRINCETON
BOND AND NOTE MATURITIES
June 30, 2011**

[illegible]

**Independent Auditor's Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with Government Auditing Standards**

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Princeton, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City of Princeton, Iowa's basic financial statements listed in the table of contents, and have issued our report thereon dated February 27, 2012. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2010. Except as noted in the Independent Auditor's report, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Princeton, Iowa's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Princeton, Iowa's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-C-11 and II-D-11 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-A-11 and II-B-11 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Princeton, Iowa's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance or other matters which are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City of Princeton, Iowa's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City of Princeton, Iowa. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Princeton, Iowa's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City of Princeton, Iowa's responses, we did not audit the City of Princeton, Iowa's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Princeton, Iowa and other parties to whom the City of Princeton, Iowa may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Princeton, Iowa during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Winkel, Parker & Foster, CPA PC

Clinton, Iowa
February 27, 2012

**Independent Auditor's Report on Compliance with Requirements
That Could Have a Direct and Material Effect
on Each Major Program and on Internal Control
Over Compliance in Accordance with OMB Circular A-133**

To the Honorable Mayor and
Members of the City Council:

Compliance

We have audited the City of Princeton, Iowa's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on the City of Princeton, Iowa's major federal program for the year ended June 30, 2011. The City of Princeton, Iowa's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the City of Princeton, Iowa's management. Our responsibility is to express an opinion on the City of Princeton, Iowa's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Princeton, Iowa's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Princeton, Iowa's compliance with those requirements.

In our opinion, the City of Princeton, Iowa complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2011.

Internal Control Over Compliance

The management of the City of Princeton, Iowa is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Princeton, Iowa's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness* in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Princeton, Iowa and other parties to whom the City of Princeton, Iowa may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Winkel, Parker & Foster, CPA PC

Clinton, Iowa
February 27, 2012

CITY OF PRINCETON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2011

<u>GRANTOR/PROGRAM</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Expenditures</u>
Indirect:			
Department of Housing and Urban Development			
Passed through Iowa Department of Economic Development:			
Community Development Block Grants/State's Program and			
Non-Entitlement Grants in Hawaii	14.228	08-WS-058	\$ 147,749
Department of Transportation			
Passed through Iowa Department of Transportation:			
ARRA-Highway Planning and Construction	20.205	ESL-6247(601)--7S-82	242,282
Passed through Iowa Department of Public Safety/GTSB:			
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	PAP 10-410, Task 65	2,130
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	PAP 10-410, Task 66	3,365
			<u>247,777</u>
Environmental Protection Agency			
Passed through Office of Water			
ARRA-Capitalization Grants for Clean Water State Revolving Funds	66.458	CF0206R	207,147
ARRA-Capitalization Grants for Clean Water State Revolving Funds	66.458	CS0177R	367,187
			<u>574,334</u>
Total			\$ 969,860

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Princeton and is presented in conformity with an other comprehensive basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**CITY OF PRINCETON
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2011**

Part I: Summary of the Independent Auditor's Results:

Financial Statements

Type of auditor's report issued: Qualified opinion

Internal control over financial reporting:

- Material weakness(es) identified? x yes no
- Significant deficiencies identified that are not considered to be material weaknesses? x yes none reported
- Noncompliance material to financial statements noted? yes x no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes x no
- Significant deficiencies identified that are not considered to be material weakness(es)? yes x none reported

Type of auditor's report issued on compliance for major programs:

Unqualified opinion

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? yes x no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>66.458</u>	<u>ARRA - Capitalization Grants for Clean Water State Revolving Funds</u>

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee? yes x no

**CITY OF PRINCETON
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2011**

Part II: Findings Related to the Financial Statements:

Internal Control Deficiencies:

II-A-11 Financial Statement Preparation

Criteria:

The City engages Winkel, Parker & Foster, CPA PC to assist in preparing its financial statements and accompanying disclosures. However, as independent auditors, Winkel, Parker & Foster, CPA PC cannot be considered part of the entity's internal control system. To establish proper internal control over the preparation of its financial statements, including disclosures, the entity should design and implement a comprehensive review procedure to ensure that the financial statements, including disclosures, are complete and accurate.

Condition:

The City has not implemented procedures, to the degree necessary, to perform a comprehensive review of the City's financial statements and related disclosures to provide a high level of assurance that potential omissions or other errors that are less than material, but more than inconsequential, would be identified and corrected.

Effect:

Management or employees in the normal course of performing their assigned functions may not prevent or detect financial statement misstatements and disclosure omissions in a timely manner.

Cause:

The entity has relied on independent auditor's to some degree to provide assurance that the financial statements, including disclosures, are not materially misstated.

Recommendation:

Management should perform a comprehensive review of the financial statements to ensure that the financial statements, including disclosures, are complete and accurate.

Response:

Management will perform a comprehensive review of the financial statements to ensure that the financial statements, including disclosures, are complete and accurate.

Conclusion:

Response accepted.

CITY OF PRINCETON
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2011

Part II: Findings Related to the Financial Statements: (CONTINUED)

II-B-11 Segregation of Duties

Criteria:

Internal controls should be in place to reduce to a relatively low risk the likelihood a material misstatement to the financial statements could occur and not be detected in a timely period by employees in the normal course of performing their assigned functions. A good system of internal control contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion.

Condition:

Currently, there are two individuals with accounting and financial duties. Although the City has implemented review procedures, there are still various times when employees have the ability to initiate, authorize and record transactions. As a result, all of those aspects of internal control which rely upon an adequate segregation of duties are, for all practical purposes, missing.

Effect:

As a result of this condition, there is a higher risk that errors or irregularities could occur and not be detected within a timely period.

Cause:

The entity has a limited number of personnel performing accounting functions.

Recommendation:

The City should be aware of the lack of segregation of duties and regularly review controls which could be put in place to mitigate the risk that misstatements could occur and not be detected and corrected on a timely basis.

Response:

The City concurs with the recommendations; however, believes the supervision by the Mayor and members of the City Council are considered mitigating factors in the lack of segregation of duties condition. The City recognizes that it would not be cost effective to hire additional personnel to maximize the segregation of accounting duties due to the size of the City. The City is aware of the condition and will continue to monitor and implement compensating controls.

Conclusion:

Response acknowledged. The City should segregate duties to the extent possible with existing personnel.

**CITY OF PRINCETON
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2011**

Part II: Findings Related to the Financial Statements: (CONTINUED)

II-C-11 Financial Reporting

Criteria:

The City operates on the cash basis of accounting; however, the City posted certain revenue transactions using the accrual basis of accounting. Material audit adjustments were necessary to convert the City's accounting records to the cash basis of accounting.

Condition:

During the audit we identified material amounts of revenue recorded in the wrong period. Although bank reconciliations were performed, the reconciliations did not always agree with the accounting records due to adjustments made subsequent to when the reconciliations were performed.

Effect:

As a result of this condition, financial reports could be materially misstated.

Cause:

The City is recording certain transactions according to the accrual basis of accounting.

Recommendation:

The City should implement procedures to ensure financial transactions are properly recorded in the City's financial records using the cash basis of accounting.

Response:

The City will ensure that all revenue transactions are recorded when cash is received and all disbursement transactions are recorded when checks are issued in accordance with the cash basis of accounting.

Conclusion:

Response acknowledged.

**CITY OF PRINCETON
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2011**

Part II: Findings Related to the Financial Statements: (CONTINUED)

II-D-11 Utility Billing

Criteria:

The City bills utility customers based upon rates approved by the City Council. On October 8, 2009, the City Council approved Ordinance Number 277 increasing the monthly charge for sanitary sewer service. However, the utility billing system was not updated to bill at the new, higher rate.

Condition:

During the audit we noted that utility customers were not being billed the correct rate for sanitary sewer service.

Effect:

As a result of this condition, the City did not bill out or receive a material amount of revenue.

Cause:

Shortly after the passage of Ordinance Number 277 the City encountered an unexpected change in a key employment position. Due to the timing of the change in relation to the passage of the new ordinance, the utility billing system was not updated to the new rate.

Recommendation:

The City should implement procedures to ensure that all utility billings are prepared using the current rates in effect as approved by the City Council.

Response:

These procedures have been implemented as recommended and the utility billing system has been updated.

Conclusion:

Response acknowledged.

Instances of Non-compliance:

No matters were noted.

**CITY OF PRINCETON
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2011**

Part III: Findings and Questioned Costs for Federal Awards:

Instances of Non-compliance:

No matters were noted.

Internal Control Deficiencies:

No matters were noted.

CITY OF PRINCETON
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2011

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-11 Certified budget - Disbursements during the year ended June 30, 2011 exceeded the amounts budgeted in the public safety, general government, debt service and business-type activity functions. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget will be amended in the future, if applicable.

Conclusion - Response accepted.

IV-B-11 Questionable disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-C-11 Travel expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-11 Business transactions - No business transactions between the City and City officials or employees were noted.

IV-E-11 Bond coverage - Currently the City does not have surety bond coverage of City officials and employees in accordance with statutory provisions.

Recommendation - The City should obtain surety bond coverage of City officials and employees in accordance with statutory provisions. Coverage should be reviewed annually to insure the coverage is adequate for current operations.

Response - The City will obtain surety bond coverage of City officials and employees in accordance with statutory provisions and the coverage will be reviewed annually.

Conclusion - Response accepted.

**CITY OF PRINCETON
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2011**

Part IV - Other Findings Related to Required Statutory Reporting (continued)

IV-F-11 Council minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

IV-G-11 Deposits and investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

IV-H-11 Revenue bonds and notes - User rates shall be established at a level which produces and maintains net revenues at a level not less than 110% of the amount of principal and interest on the bonds falling due in the same year.

Recommendation - The City should review user rates to ensure net revenues are at a level not less than 110% of the amount of principal and interest due in the same year.

Response - The City will review user rates.

Conclusion - Response accepted.

IV-I-11 Local Option Sales Tax - The ballot for the local option sales tax authorizes the City to collect the tax and to allocate 60% of the collections to property tax relief and 40% for capital improvements. The City does not maintain adequate records to document the proper disbursement of local option sales tax for the authorized uses.

Recommendation - The City should establish procedures to accumulate and document local option sales tax disbursements to demonstrate compliance with ballot requirements.

Response - The City will set up additional accounts to show allocations and disbursements better.

Conclusion - Response accepted.

**CITY OF PRINCETON
SUMMARY SCHEDULE OF PRIOR FEDERAL AUDIT FINDINGS
Year Ended June 30, 2011**

<u>Comment Reference</u>	<u>Comment Title</u>	<u>Status</u>
No matters were noted.		

**CITY OF PRINCETON
CORRECTIVE ACTION PLAN FOR FEDERAL AUDIT FINDINGS
Year Ended June 30, 2011**

<u>Comment Number</u>	<u>Comment Title</u>	<u>Corrective Action Plan</u>	<u>Contact Person, Title Phone Number</u>	<u>Anticipated Date of Completion</u>
----------------------------------	---------------------------------	--------------------------------------	--	--

There were no comments made regarding significant deficiencies or noncompliance with federal awards.